

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CEA-01 CIAE-00 COME-00 EB-07
EA-09 FRB-01 INR-07 IO-14 NEA-10 NSAE-00 USIA-15
OPIC-06 SP-02 TRSE-00 LAB-04 EPG-02 SIL-01
AGRE-00 OMB-01 SS-15 NSC-05 STR-04 /122 W
-----048034 222304Z /75

R 222217Z JUN 77
FM AMEMBASSY OTTAWA
TO SECSTATE WASHDC 3914
INFO AMEMBASSY PARIS
AMCONSUL MONTREAL
ALL OTHER AMCONSULS IN CANADA (BY POUCH)

UNCLAS SECTION 01 OF 03 OTTAWA 05470

USOECD

DEPARTMENT PASS TREASURY, FRB

E.O. 11652: N/A
TAGS: ECON, CA
SUBJECT: FIRST QUARTER CANADIAN GNP: EXPORT LED RECOVERY

REF: OTTAWA 1107

1. SUMMARY. REAL GNP ROSE AT A SEASONALLY ADJUSTED ANNUAL RATE OF 5.2 PERCENT IN THE FIRST QUARTER OF 1977 FOLLOWING DECLINES IN THE LAST TWO QUARTERS OF 1976. THE TURNAROUND CAME MOSTLY FROM HIGHER EXPORTS, BASED IN PART ON STRONG U.S. FIRST QUARTER DEMAND AND DEPRECIATION OF THE CANADIAN DOLLAR. GOVERNMENT SPENDING WAS ALSO UP, BUT INVESTMENT WAS FLAT AND BOTH PERSONAL CONSUMPTION AND INVENTORIES FELL. INFLATION DECLINED TO AN UNDERLYING RATE OF UNDER SEVEN PERCENT. GOVERNMENT ECONOMISTS BELIEVE THE ECONOMY'S PERFORMANCE IS ABOUT ON TARGET IN KEEPING WITH POLICIES OF MODERATE GROWTH
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TO HOLD BACK INFLATION. END SUMMARY.

2. REAL GROSS NATIONAL PRODUCT (GNP) SEASONALLY ADJUSTED GREW 1.3 PERCENT DURING THE FIRST QUARTER OF 1977 OVER THE WEAK FOURTH QUARTER 1976, AN ANNUALIZED RATE OF ABOUT 5.2 PERCENT. NOMINAL (CURRENT DOLLAR) GNP SEASONALLY ADJUSTED ROSE 2.2 PERCENT (8.8 PERCENT

ANNUAL RATE) DURING THE QUARTER TO A LEVEL OF DOLS
199.9 BILLION.

3. THE GNP IMPLICIT PRICE INDEX ROSE ONLY 0.8 PERCENT
(ABOUT 3.2 PERCENT ANNUAL RATE) DOWN FROM A 9.6 PERCENT
ANNUAL RATE IN THE PREVIOUS QUARTER. THIS LOWER IN-
FLATION RATE WAS DUE IN PART TO A DROP IN THE INDEX OF
GOVERNMENT CURRENT EXPENDITURES OF 2.4 PERCENT AFTER A BIG
JUMP IN THE PREVIOUS QUARTER DUE TO RETROACTIVE WAGE
PAYMENTS. REMOVING THE INFLUENCE OF THESE EXTRAORDINARY
PAYMENTS, THE GOVERNMENT AND GNP INDEXES GREW 1.9 AND 1.7
PERCENT RESPECTIVELY IN THE FIRST QUARTER, SUGGESTING
AN UNDERLYING RATE OF INFLATION RUNNING AT AN ANNUAL RATE
OF ABOUT 6.8 PERCENT.

4. THE STRONGEST COMPONENT OF GNP WAS HIGHER EXPORTS
OF GOODS AND SERVICES WHICH INCREASED 10 PERCENT IN
CURRENT DOLLARS, 6.5 PERCENT IN CONSTANT DOLLARS DURING
THE QUARTER. REAL MERCHANDISE EXPORTS INCREASED 8.3
PERCENT OVER THE PREVIOUS QUARTER WHILE REAL IMPORTS WERE
UP ONLY 1.3 PERCENT. STATISTICS CANADA ESTIMATES THAT
ABOUT HALF OF THE INCREASE IN IMPORT PRICES WAS DUE TO
DEPRECIATION OF THE CANADIAN DOLLAR, AND THAT HIGHER
IMPORT PRICES ALSO CONTRIBUTED TO THE PRICE INCREASE
FOR PERSONAL EXPENDITURES WHICH ROSE 2.0 PERCENT DURING
THE QUARTER, UP FROM 1.1 PERCENT THE PREVIOUS QUARTER.
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5. DEPRECIATION OF THE CANADIAN DOLLAR WAS ALSO CREDITED
BY STATCAN WITH PART OF THE 3.2 PERCENT INCREASE IN THE
EXPORT PRICE INDEX MEASURED IN CANADIAN DOLLARS AS
MANY EXPORTERS KEPT THE U.S. DOLLAR PRICE OF THEIR GOODS
UNCHANGED. THIS SAME PHENOMENON, COUPLED WITH HIGHER
EXPORT VOLUMES IN RESPONSE TO STRONG U.S. DEMAND CON-
TRIBUTED TO THE HEALTHY 15.6 PERCENT RISE IN PRE-TAX
CORPORATE PROFITS IN THE FIRST QUARTER. THE INCREASE
IN PROFITS ACCOUNTED FOR ABOUT TWO-THIRDS OF THE GROWTH
OF FIRST QUARTER OUTPUT MEASURED IN INCOME TERMS.
HOWEVER, ABOUT HALF OF MEASURED FIRST QUARTER PROFITS
WERE "PAPER PROFITS" DUE TO INVENTORY EVALUATION ADJUST-
MENTS. (CANADA PERMITS ONLY FIRST IN FIRST OUT--FIFO--
ACCOUNTING PROCEDURES FOR INVENTORY VALUATION.) FIRST
QUARTER PROFIT RESULTS FOLLOWED A VERY WEAK YEAR, AND
PROFIT GROWTH OVER THE PAST FOUR QUARTERS WAS ONLY
SLIGHTLY MORE THAN GNP GROWTH OVER THE SAME PERIOD.

6. ADJUSTING FOR THE RETROACTIVE WAGE SETTLEMENTS MADE
BY GOVERNMENTS IN THE FOURTH QUARTER, FIRST QUARTER
NOMINAL GROWTH OF LABOR INCOME WAS 2.3 PERCENT. HIGHER

TAXES MEANT PERSONAL DISPOSABLE INCOME GROWTH WAS LOW (UP 0.5 PERCENT). FARM INCOME FROM FARM PRODUCTION FELL 20 PERCENT IN THE FIRST QUARTER AND NOW IS AT LESS THAN HALF OF ITS LEVEL A YEAR AGO. INVESTMENT INCOME DECLINED. TOTAL PERSONAL INCOME WAS UP 1.5 PERCENT AND IS NOW 9.6 PERCENT GREATER THAN A YEAR AGO, THE LOWEST FOUR-QUARTER INCREASE SINCE THE FIRST QUARTER OF 1971.

7. SLOWER PERSONAL INCOME GROWTH HAS MEANT WEAKNESS IN CONSUMER SPENDING. PERSONAL EXPENDITURES ROSE 1.6

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PERCENT IN CURRENT DOLLARS BUT FELL 0.4 PERCENT IN REAL TERMS AFTER ADJUSTING FOR INFLATION. THE SAVINGS RATIO (PERSONAL SAVINGS AS A PERCENT OF DISPOSABLE INCOME) DROPPED TO 8.5 PERCENT FROM 9.5 PERCENT IN THE FOURTH QUARTER OF 1976. SPENDING ON DURABLES AND SERVICES WERE UP NEARLY 2 PERCENT, BUT SPENDING ON NON-DURABLES (MOSTLY FOOD) FELL 4 PERCENT OVER THE PREVIOUS QUARTER.

8. OVERALL INVESTMENT SPENDING REMAINED WEAK. REAL GROSS FIXED CAPITAL FORMATION ROSE 0.5 PERCENT. BUSINESS INVESTMENT IN NON-RESIDENTIAL CONSTRUCTION (UP 3.5 PERCENT) WAS STRONGER THAN RESIDENTIAL CONSTRUCTION WHICH DECLINED (BY 2 PERCENT) FOR THE THIRD CONSECUTIVE QUARTER. INVESTMENT IN PLANT AND EQUIPMENT WAS UP ONLY 0.5 PERCENT.

9. THE REAL VALUE OF THE PHYSICAL CHANGE IN INVENTORIES

FELL BY ABOUT DOLS ONE BILLION IN THE FIRST QUARTER,
APPARENTLY BECAUSE OF UNEXPECTEDLY STRONG EXPORT DEMAND.

10. TOTAL EXPENDITURES BY ALL LEVELS OF GOVERNMENT ROSE
A HEALTHY 3.2 PERCENT, MUCH OF WHICH WAS DUE TO HIGHER
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TRANSFER PAYMENTS, ESPECIALLY BY PROVINCES. TOTAL
GOVERNMENT REVENUES INCREASED 6.4 PERCENT. THE DEFICIT
OF ALL LEVELS OF GOVERNMENT FELL TO DOLS 1.3 BILLION
FROM DOLS 3.5 BILLION IN THE FOURTH QUARTER OF 1976.

11. REVISED FIGURES FOR 1976 SHOW QUARTER TO QUARTER
GNP DROPPED 0.33 AND 0.21 PERCENT IN THE THIRD AND FOURTH
QUARTERS RESPECTIVELY.

12. COMMENT. FEDERAL GOVERNMENT POLICIES HAVE DELIBER-
ATELY SOUGHT TO SHIFT INCOME DISTRIBUTION GRADUALLY
AWAY FROM UNSUSTAINABLY HIGH LEVELS OF CONSUMPTION
INTO INVESTMENT AND EXPORTS. THE PERIOD OF CONSUMPTION
LED GROWTH IS NOW CLEARLY OVER -- WHICH HAD SUSTAINED
CANADA IN RECENT YEARS OF WORLD RECESSION. FIRST QUARTER
FIGURES INDICATE THAT THE DEUS EX MACHINA OF VERY STRONG
U.S. FIRST QUARTER GROWTH HAS LARGELY PULLED THE CANADIAN
ECONOMY ALONG WITH IT, BUT DOMESTIC INVESTMENT HAS NOT
YET BECOME SIGNIFICANT SOURCE OF STRENGTH. STATCAN
DESCRIBED THE FIRST QUARTER PERFORMANCE AS "RELATIVELY
HEALTHY BUT NARROWLY BASED."

13. CONTINUED IMPROVEMENT IN THE SECOND QUARTER AND
BEYOND CAN BE EXPECTED. EXPORTS SHOULD REMAIN STRONG.
FIGURES ON INFLATION AND UNEMPLOYMENT SINCE THE END OF
THE FIRST QUARTER HAVE SHOWN IMPROVEMENT. YET RISKS
REMAIN. RETAIL SALES HAVE SLOWED AND SOME FEAR THE
WEALTH-REDUCING EFFECTS OF HIGHER IMPORT PRICES CAN IN
TIME DETER CONSUMERS AND PUSH SAVINGS RATES BACK UP.
IN PARTICULAR, ANY NOTABLE FAILURE IN RESTRAINING
INFLATION, ESPECIALLY AS CANADA APPROACHES DECONTROL OF
WAGES AND PRICES LATER THIS YEAR, COULD UNDERMINE THE
STILL FRAGILE CLIMATE BOTH FOR INVESTORS AND CONSUMERS.
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14. TABLES.

I. GNP, SEASONALLY ADJUSTED PERCENTAGE RATES

QI77/QIV76 ANNUALIZED

NOMINAL GNP	2.2	8.8
GNP DEFLATOR	0.8	3.2
REAL GNP	1.3	5.2

II. GNP, SEASONALLY ADJUSTED AND ADJUSTED FOR QIV76
RETROACTIVE WAGE PAYMENTS BY GOVERNMENTS, PERCENTAGE RATES

GNP DEFLATOR	1.7	6.8
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III. GROSS NATIONAL EXPENDITURE (GNE), SEASONALLY ADJUSTED
ANNUAL RATES, IN MILLIONS ON CONSTANT (1971) DOLLARS

	QIV 76	QI 77
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PERSONAL CONSUMPTION	76,984	76,700
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GOVERNMENT CURRENT EXPENDITURE	21,288	22,204
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GROSS FIXED CAPITAL FORMATION	26,652	26,792
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INVENTORY CHANGE	516	(472)
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EXPORTS OF GOODS AND SERVICES	26,280	27,988
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OF WHICH MERHANDISE	21,784	23,604
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ALL OTHER AMCONSULS IN CANADA (BY POUCH)

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IMPORTS OF GOODS

AND SERVICES	32,656	32,872
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OF WHICH

MERCHANDISE	23,580	23,880
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RESIDUAL ERROR	(700)	(396)
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GNE	118,364	119,944
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GNE PRICE INDEX

(1971 100)	165.3	166.6
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Message Attributes

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Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
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Disposition Reason:
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SAS ID: 2071434
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Status: NATIVE
Subject: FIRST QUARTER CANADIAN GNP: EXPORT LED RECOVERY
TAGS: ECON, CA
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/8584e378-c288-dd11-92da-001cc4696bcc
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